

Message Text

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ACTION NEA-10

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P R 230959Z FEB 77
FM AMEMBASSY DACCA
TO SECSTATE WASHDC PRIORITY 3641
INFO AMEMBASSY ROME

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ROME FOR FODAG

E.O. 11652: N/A
TAGS: EAID, EAGR, BG
SUBJ: DCMLA MAHMOOD'S FURTHER APPEAL FOR US FOOD AID

REF: (A) DACCA 613, (B) A-3, JAN 7, 1977, (C) A-28,
FEB 18, 1977

1. SUMMARY: AT FEB 18 MEETING WITH AMBASSADOR, AIR
VICE MARSHAL MAHMOOD RECALLED HIS FEB 3 PRESEN-
TATION TO LOCAL DONORS' GROUP AND AGAIN ASKED FOR PROMPT
US FOOD AID. AMBASSADOR IDENTIFIED SLOW PROCUREMENT
DRIVE AND RECENT STRENGTHENING OF RATION SYSTEM AS AREAS OF
CONCERN US WOULD RAISE AT PL-480 NEGOTIATIONS WHEN
MISSION RECEIVED INSTRUCTIONS. TO IMPROVE PROCUREMENT
RATE BDG HAS RAISED EFFECTIVE PRICE FOR PADDY BY FOUR
TAKA. THE AIR VICE MARSHAL AND WE HAVE STARTED THE
DIALOGUE HE REQUESTED AT THE LOCAL DONORS' MEETING,
BUT WE ARE NOT YET CLOSE TOGETHER ON SELF-HELP MEASURES.
WE SUGGEST WE SHARE THESE WITH OTHER MAJOR FOOD DONORS
AND SEEK THEIR GENERAL SUPPORT IN UNDERSCORING TO THE
BDG THE NEED TO REDUCE ITS DEPENDENCE ON FOODGRAIN
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IMPORTS. CHITTAGONG PORT CAPACITY IS DOWN TO 100,000
MT OF WHEAT PER MONTH, WHICH WILL COMPLICATE SHIPMENT
SCHEDULING PROBLEMS. WHERE ARE THE PL-480, TITLE I
INSTRUCTIONS? END SUMMARY.

2. DCMLA AIR VICE MARSHAL A.G. MAHMOOD INVITED AMBASSADOR
FEB 18 TO DISCUSS BDG FOOD AID APPEAL TO DONORS

(REFTEL). USAID DIRECTOR, ECON COUNSELOR, AND FOOD
MINISTRY JOINT SECRETARY, ANISUZZAMAN KHAN, WERE PRESENT.

3. WFP FOODGRAIN FORECASTS (REFAIR C). MAHMOOD AND KHAN
NOTED THAT WFP HAD ISSUED FOODGRAIN FORECAST ON BASIS
DISCUSSIONS WITH MAHMOOD AND OTHER BDG OFFICIALS. FORE-
CAST FIGURES TALLIED EXACTLY WITH BDG PROJECTIONS, THEY
SAID.

4. FOODGRAIN APPEAL. MAHMOOD ASKED FOR US FOODGRAINS,
BASING APPEAL LARGELY ON GROUNDS COVERED AT LOCAL DONORS'
MEETING, AND STRESSING NEED TO ACHIEVE 900,000 MT STOCK LEVEL.
OTHER FACTORS INCLUDED THE IMPOSSIBILITY OF KNOWING THE SIZE
AND HENCE THE ADEQUACY OF PRIVATE STOCK LEVELS, THE UPWARD
TREND IN RICE PRICES AND UNCERTAIN OUTLOOK FOR BORO
(WINTER) RICE AND WHEAT PRODUCTION. WHILE THERE COULD
BE DISAGREEMENT OVER EXACT EFFECT OF LOW WATER LEVELS
THIS YEAR AND PRECISE ROLE OF FARAKKA DIVERSIONS, IT WAS
OBVIOUS THAT FARAKKA WOULD HAVE SOME ADVERSE EFFECT ON
FOODGRAIN PRODUCTION. IF EMERGENCY SHOULD DEVELOP AND
PRICES RISE PRECIPITOUSLY, BDG COULD NOT RISK CREDIBILITY
WITH PRIVATE SECTOR BY SEIZING STOCKS, NOW THAT CREDIT
HAD BEEN OFFERED AGAINST STOCKS.

5. US VIEWS. AMBASSADOR NOTED THAT WE EXPECTED TO RE-
CEIVE INSTRUCTIONS WITHIN WEEK TO NEGOTIATE FY 1977
PL-480, TITLE I AGREEMENT, AND THAT OUR PROPOSED SELF-
HELP MEASURES WOULD COVER SOME OF OUR CURRENT CONCERNS.
AMBASSADOR MADE FOLLOWING POINTS:
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(A) SO LONG AS US HAD AVAILABLE FOOD SURPLUS, WE
WOULD DO EVERYTHING POSSIBLE TO AVOID STARVATION OR POLI-
TICAL INSTABILITY IN BANGLADESH FOR LACK OF NEEDED FOOD.
IF SUCH A CRISIS APPEARED IMMINENT, WE WOULD WORK CLOSELY
WITH BDG TO DO WHAT WE COULD;

(B) US STRONGLY SUPPORTED BDG GOAL OF FOODGRAIN
SELF-SUFFICIENCY AND MANY OF OUR USAID PROGRAMS WERE DESIGNED
TO CONTRIBUTE TO ACHIEVING THAT GOAL. WE WERE ALSO CON-
CERNED AT POSSIBILITY THAT WITHOUT REAL PROGRESS TO REDUCE
BDG DEPENDENCE ON IMPORTS, THERE MIGHT COME A YEAR WHEN FOR
WHATEVER REASONS, INCLUDING POSSIBILITY
ADVERSE WEATHER AND REDUCED HARVESTS IN NORTH AMERICA,
US WOULD NOT HAVE ADEQUATE SURPLUS TO MEET BDG NEEDS.

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(C) WE HAD WELCOMED BDG ANNOUNCEMENTS AT MAY, 1976, BANGLADESH AID GROUP MEETING OF POLICIES TO BE UNDERTAKEN IN FY 1977 TO MOVE TOWARD FOODGRAIN SELF-SUFFICIENCY, AND BELIEVED THAT THIS SECOND CONSECUTIVE YEAR OF GOOD HARVESTS AND RELATIVELY HIGH PUBLIC AND PRIVATE STOCK LEVELS OFFERED EXCELLENT OPPORTUNITY TO REDUCE DEPENDENCE ON THE RATION SYSTEM AT MINIMUM RISK OF FOOD SHORTAGES. WE HAD BEEN DISAPPOINTED WITH BDG ACTIONS TO TWO SPECIFIC AREAS, WHICH SEEMED TO REFLECT MOVEMENT AWAY FROM GOAL OF SELF-SUFFICIENCY. THESE WERE, FIRST, THE DOMESTIC FOODGRAIN PROCUREMENT DRIVE, WHICH WAS LAGGING BEHIND LAST YEAR'S PACE; AND SECOND, THE RECENT INCREASES IN THE RATION AMOUNTS AND COVERAGE OF THE RATION SYSTEM.

6. SUBSIDIES AND INCENTIVE PRIVES. WE ALSO NOTED SIGNIFICANT BUDGETARY IMPACT OF SUBSIDIES GENERALLY, AND ASKED IF BDG HAD RECENTLY EXAMINED CASE FOR RAISING BDG CIVIL SERVANTS' SALARIES WHILE REDUCING SUBSIDIES ON (I.E., RAISING SALES PRICES OF) RATIONED FOODGRAINS. WE ALSO NOTED THAT USAID FIELD REPORTS SUGGESTED THAT FARMGATE PRICES WERE INSUFFICIENT TO

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PERMIT FARMERS TO MAKE A PROFIT GROWING HYV RICE AS COST OF INPUTS EXCEEDED RETURN ON OUTPUT. BORO (WINTER) RICE PLANTINGS WERE WELL DOWN, WE UNDERSTOOD, AND THE

JUTE/RICE PRICE RATIO WAS FAVORABLE TO JUTE, WHICH
COMPETED DIRECTLY WITH BORO RICE.

7. MAHMOOD MADE THE FOLLOWING RESPONSES:

(A) PROCUREMENT DRIVE. BDG HAD PROCURED 190,000
MT IN TERMS OF RICE THROUGH FEB 16. MAHMOOD WAS
CONFIDENT THAT THE BDG WOULD EXCEED THE "REALISTIC"
ESTIMATE OF 400,000 MT CONTAINED IN THE AGREED WFP
FOODGRAIN FORECAST. MAHMOOD SAID MORE CATEGORICALLY
THAN HE HAD AT LOCAL DONORS' MEETING THAT BDG WOULD
TAKE (UNSPECIFIED) ADDITIONAL ADMINISTRATIVE STEPS TO
IMPROVE PROCUREMENT RATE. ON FEB 19, BDG ANNOUNCED
DECISION TO PAY A FLAT TRANSPORTATION BONUS OF FOUR
TAKA PER MAUND OF 82 LBS. IRRESPECTIVE OF THE DIS-
TANCE INVOLVED FROM FARM TO PROCUREMENT CENTER.
THIS RAISES THE EFFECTIVE PRICE FROM TAKA 74 TO 78.
ON QUESTION OF QUALITY CONTROL, HE NOTED THAT IMPROVED
QUALITY STANDARDS THIS YEAR REDUCED WASTAGE, AND IN-
TODUCED AN IMPORTANT ELEMENT OF "ETHICS" INTO PROCURE-
MENT DRIVE.

(B) RATION SYSTEM. MAHMOOD EXPLAINED THAT HE HAD
TAKEN SEVERAL STEPS TO ENSURE THAT FOODGRAINS WERE
AVAILABLE TO POOREST ELEMENTS. THESE STEPS INCLUDED:
(I) INCREASING RATION QUANTITIES; AND (II) OPENING
MODIFIED RATIONING TO 'B', 'C', AND 'D' CATEGORY CARD
HOLDERS IN ADDITION TO 'A' CATEGORY ('A' CATEGORY IS
POOREST, 'B' SLIGHTLY BETTER OFF, AND 'D' ENJOYS
RELATIVELY HIGHEST INCOME). IN FACT, ONLY THE POOREST
RATION CARD HOLDERS (CATEGORY 'A') WERE DRAWING RATIONS;
OTHER WERE BUYING FOOD FROM THE OPEN MARKET. FURTHER-
MORE, THERE WERE GENERAL DISINCENTIVES TO THE USE OF
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THE RATION SYSTEM: (I) THE AMOUNTS OF THE RATION WERE
RELATED TO FAMILY SIZE, RISING WITH THE NUMBER OF FAMILY
MEMBERS UP TO A LIMIT OF SIX. FAMILIES WITH MORE THAN
6 MEMBERS RECEIVED NO MORE RATION ALLOTMENT THAN THOSE
WITH 6 MEMBERS; (II) RATIONEES WERE NO LONGER REQUIRED
TO LIFT RATIONS WEEKLY TO AVOID HAVING THEIR CARDS
CANCELLED (AND HENCE WERE FREER TO BUY ON THE OPEN
MARKET); (III) RATION SHOP GRAIN WAS NOT OF THE HIGHEST
QUALITY.

(C) SUBSIDIES AND INCENTIVE PRICES. MAHMOOD SAID
HE WAS UNAWARE OF ANY RECENT BDG EXAMINATION OF THE
CASE FOR SIMULTANEOUSLY RAISING GOVERNMENT ALARIES
AND RATION PRICES BUT WOULD LOOK INTO THE MATTER. HE
ALSO AGREED TO EXAMINE THE BORO CROP OUTLOOK WITH THE

AGRICULTURAL ADVISOR, AZIZUL HUQ, AND WITH AGMIN SECRETARY OBAIDULLAH KHAN, BUT NOTED THAT FARMGATE PRICES WERE HIGHER THIS YEAR THAN LAST, AND THAT THERE WAS NO QUESTION OF A RETURN TO THE EXCEPTIONALLY INFLATED PRICE LEVELS OF 1974. GOVERNMENT EFFORTS TO CHECK SMUGGLING AND IMPROVE SECURITY OF FOODGRAIN TRANSPORT TOGETHER WITH LAST YEAR'S INCREASES IN RATION PRICES HAD GREATLY NARROWED DIFFERENCE BETWEEN RATION PRICE (NOW TAKA 90 PER MAUND OF 82 LBS.) AND THE SUP-PORT PRICE OF TAKS 118 PER MAUND FOR MILLED RICE.

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8. RICE EXPORTS. MAHMOOD REFERRED TO BDG REQUEST (REFAIR B AND PREVIOUS) FOR US CONCURRENCE IN EXPORT OF SMALL AMOUNTS (10,000 TO 15,000 MT) OF HIGH QUALITY BASMATI RICE TO EARN FOREIGN EXCHANGE EARNING WITH WHICH TO FINANCE THE IMPORT OF LOWER QUALITY FOODGRAINS FOR CONSUMPTION IN BANGLADESH. MAHMOOD RECALLED THAT US HAD, ON AT LEAST ONE OCCASION, NOT OBJECTED TO SUCH EXPORTS FROM PAKISTAN, DESPITE THE EXPORT LIMITATION PROVISIONS OF THE PL-480 AGREEMENT. WE AGREED THAT SUBJECT COULD BE DISCUSSED WITHIN GENERAL CONTEXT OF OUR PL-480 DISCUSSIONS.

9. SHIPMENT SCHEDULES. MAHMOOD NOTED THAT THE PORT OF CHITTAGONG MIGHT BE CONGESTED NEXT SUMMER AND THE BDG SOUGHT TO HAVE US FOODGRAINS ARRIVE BEFORE JUNE 30. (WHILE HE DID NOT SAY SO, HE APPARENTLY HAD IN MIND POSSIBLE CANADIAN SHIPMENTS WHICH WILL PROBABLY AMOUNT TO BETWEEN 125,000 AND 150,000 MT DURING

CANADIAN FISCAL YEAR 1977/78 (APRIL TO MARCH). ALTHOUGH THERE ARE NO FIRM ARRIVAL DATES YET, CANADIAN SHIPMENTS HAVE IN PAST YEARS USUALLY REACHED BANGLADESH PORTS IN JUNE, JULY AND AUGUST.) WE AGREED TO WORK WITH THE BDG AND OTHER DONORS TO SCHEDULE SHIPMENTS TO AVOID LIMITED OFFICIAL USE

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PROBLEM OF PORT CONGESTION, BUT POINTED OUT THAT, GIVEN NEGOTIATING AND SHIPPING LEAD TIMES INVOLVED, US SHIPMENTS COULD NOT BE EXPECTED TO ARRIVE BEFORE JUNE 30, 1977.

10. COMMENTS:

(A) AVM MAHMOOD AND WE HAVE OPENED THE DIALOGUE HE SOUGHT AT THE FEB 3 LOCAL DONORS' MEETING, BUT ON SELF-HELP MEASURES AND THE URGENCY OF ADOPTING EFFECTIVE PROGRAMS TO BOOST DOMESTIC FOODGRAIN PRODUCTION AND REDUCE DEPENDENCE ON IMPORTS, WE STILL HAVE A LONG WAY TO GO. WE BELIEVE THE US SHOULD SHARE ITS CONCERNS IN THIS AREA WITH OTHER MAJOR DONORS AND RECOMMEND THAT OUR MISSIONS IN CANBERRA, OTTAWA, EC/BRUSSELS, LONDON, AND PERHAPS ELSEWHERE, BE INSTRUCTED TO INFORM HOST GOVERNMENTS OF OUR PROPOSED PL-480, TITLE I SELF-HELP MEASURES AND URGE THEM TO SUPPORT BDG ADOPTION OF SUCH STEPS TOWARD FOODGRAIN SELF-SUFFICIENCY IN CONNECTION WITH THEIR OWN FOOD PROGRAMS.

(B) INSTRUCTIONS. IT IS INCREASINGLY A SOURCE OF EMBARRASSMENT HERE TO BE WITHOUT PL-480, TITLE I NEGOTIATING INSTRUCTIONS. ASSUMING WE RECEIVE THEM BY MARCH FIRST AND NEGOTIATIONS REQUIRE ONLY ONE MONTH, THEN THE EARLIEST THAT US GRAIN SHIPMENTS COULD REACH BANGLADESH WOULD BE AUGUST.

(C) PORT CAPACITY. AT PRESENT, CHITTAGONG PORT CAN HANDLE ONLY 100,000 MT OF WHEAT PER MONTH BECAUSE (1) THE SILO AND RELATED HANDLING EQUIPMENT IS IN SERIOUS NEED OF REPAIR AND MAINTENANCE; AND (2) THERE ARE INSUFFICIENT LIGHTERS TO MOVE GRAIN FROM LADEN SHIPS AT THE OUTER ANCHORAGE TO DOCKSIDE. THIS SITUATION WILL INCREASE THE NEED FOR CLOSE CONSULTATION AND COORDINATION AMONG FOOD DONORS AND THE WFP ADVISOR LIMITED OFFICIAL USE

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HERE. GIVEN THE HISTORICAL PATTERN OF SUMMARY ARRIVALS

OF CANADIAN FOOD AID, US FOODGRAINS COULD WELL HAVE TO
WAIT UNTIL SEPTEMBER TO BE UNLOADED AT CHITTAGONG.
(D) EXPORT WAIVER REQUEST. WE HAD RECOMMENDED
AGAINST US APPROVAL OF THIS BDG REQUEST TO EXPORT HIGH
QUALITY RICE (REFAIRGRAM B), BUT THE AMOUNT INVOLVED
IS VERY SMALL (TOTAL RICE PRODUCTION IN BANGLADESH IS
ABOUT 13 MMT) AND US AGREEMENT TO THE BDG REQUEST
COULD PROVE HELPFUL IN OUR PL-480 NEGOTIATIONS. AC-
CORDINGLY, WE RECOMMEND WE HOLD OFF ON A DEFINITE RESPONSE
TO THE BDG UNTIL THE NEGOTIATIONS ARE UNDER WAY, AND WE
CAN REASSESS THAT REQUEST IN THE LIGHT OF THOSE NEGOTIATIONS.
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